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Report Highlights:

Saudi barley imports in marketing year 2007 (MY 2007), (July 2007-June 2008) are forecast to decrease 8 percent to 6.4 million metric tons due to availability of competitively priced feed concentrates. Beginning in the spring of 2009, Saudi Arabia will import wheat for the first time since the country achieved self-sufficiency in the early 1980s.

Includes PSD Changes: Yes
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I. Overview of Saudi Arabia's Barley Market

Barley is not grown in Saudi Arabia. The Saudi government terminated its production subsidy program in 2003, bringing an end to the local barley production.

PSD Table									
Country	Saudi Arabia								
Commodity	Barley (---000 metric tons---)								
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	0	0	0	0	0	0	0	0	0
Beginning Stocks	3213	3162	2500	2903	2852	2636	1693	2542	2726
Production	0	0	0	0	0	0	0	0	0
MY Imports	6500	6000	6946	5400	6500	6400	0	0	6000
TY Imports	5800	6000	6250	5600	6500	6100	0	0	5800
TY Imp. From U.S.	53	0	53	0	0	0	0	0	0
Total Supply	9713	9162	9446	8303	9352	9036	1693	2542	8726
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed Consumption	6800	6300	6800	6600	6800	6300	0	0	6100
FSI Consumption	10	10	10	10	10	10	0	0	10
Total Consumption	6810	6310	6810	6610	6810	6310	0	0	6110
Ending Stocks	2903	2852	2636	1693	2542	2726	0	0	2616
Total Distribution	9713	9162	9446	8303	9352	9036	0	0	8726
Yield	0	0	0	0	0	0	0	0	0

1. Barley Imports

Since 2003, Saudi Arabia that time, the country has been importing approximately seven million metric tons of barley annually, about 50 percent of feed barely available for world exports. This large Saudi demand contributed to a rise in the world price to more than \$420 per metric ton early this year. To reduce the country's dependence on feed barley, the government announced earlier this year a decision to include seven additional energy and protein rich animal feed ingredients in its long standing imported animal feed subsidy program.

Under the revised program, the government provides rebates which range between \$58.13 and \$186.67 per metric ton, depending on the type of imported feed, directly to the local importer. The Saudi government believes that including additional feedstuffs in the current subsidy program will provide local livestock producers with more nutritious feeds. The government anticipates that this will lead to a drastic reduction in the demand for barley imports. Since the introduction of the new feed subsidy program, the demand for barley has decreased, resulting in larger stocks and reduced demand for barley imports.

According to major importers, the world barley market has reacted to the reduced Saudi demand by cutting the prices of barley imported to Saudi Arabia to \$385 per metric ton for

March arrival, a reduction of 8 percent compared to prices quoted in January. For every metric ton reduction in barley imports, the Saudi government will save \$186.67 in the subsidy paid to importers.

Barley imports during the first six months of MY 2007 (July 2007-December 2007) increased 12 percent from the same period a year earlier (3,317,000 mt vs. 2,968,000 mt). Barley imports by the end of MY 2007 are forecast to decrease 8 percent to 6.4 million metric tons due to availability of competitively priced feed concentrates. The outlook for MY 2008 calls for a significant decline in barley imports for the same reason.

In calendar year 2007, Saudi Arabia imported 7.3 million metric tons of barley, an increase of 5 percent compared to calendar 2006. Ukraine supplied 32 percent of total barley imports, followed by Germany with 14 percent.

2. Government Subsidy on Imported Barley and Other Animal Feed

On January 1, 2008, the Saudi government announced a decision to include seven additional energy and protein rich animal feed ingredients in its longstanding imported animal feed subsidy program. Under the revised program, the government provides rebates which range between \$58.13 and \$186.67 per metric ton, depending on the type of imported feed, directly to the local importer.

The following table shows animal feed included in the January 1 decree and the subsidy rate in U.S. dollars per metric ton.

Feed Grain	Subsidy (USD/MT)
Palm Kernel Meal	\$130.13
Wheat Bran	\$126.67
Soybean Meal (44% protein content)	\$122.67
Alfalfa Hay	\$118.93
Sugarcane Molasses	\$ 73.60
Rice Bran	\$ 58.40
Sunflower Meal	\$ 58.13

The new feed ingredients bring the total number of subsidized, imported feed products to 11. Barley, corn and soybean meal (48 percent protein) were added to the subsidy program years ago, sorghum was added to the program in 2007.

Feed Grain	Subsidy (USD/MT)
Barley	\$186.67
Yellow Corn	\$133.33
Soybean Meal (48 percent protein content)	\$133.33
Sorghum	\$133.33

To claim the feed subsidy, local importers must submit required documents such as purchase invoice, bill of lading, certificate of origin and phytosanitary certificate.

3. Barley Consumption

Traditionally, barley has been the preferred animal feed for local Bedouins and approximately 80 percent of imported barley is used in feeding their sheep, camels, and goats, especially when pasture conditions are poor and barley prices are lower than alternative feed.

It is important to note that the quantity of barley used as feed depends to a large extent on its price competitiveness compared to other feed alternatives. Recently, when the price of barley reached \$13.13 per 50 kg, equal to the price for local feed concentrate of the same weight, a large number of livestock farmers switched to alfalfa and feed concentrates. As a result, local barley importers ended up with large stocks and reduced the amount of barley imports. To encourage demand for barley, importers reduced their barley prices by more than 10 percent helping to move significant quantities of barley from warehouses to the market.

Bedouins feed raw barley to their livestock and in the process a significant percent is wasted. According to MOA, the new feed subsidy policy is intended to encourage expansion of existing feed processors and establishment of new facilities to help provide local livestock with adequate quantities of more nutritional feed formulas. The MOA points out that livestock use of more feed concentrates mixed with barley is necessary to reduce barley wastage. The ministry indicates that when an animal consumes large quantities of barley, about 30 percent is eliminated without being digested, thereby providing no benefit in terms of weight gain or nutrition. The recent introduction of seven additional feedstuffs to the existing feed subsidy program is expected to bring about new and better-feed formulas that will sharply reduce feed wastage, increase weight gain and reduce production costs.

Although local livestock farmers prefer barley as a feed alternative, future barley consumption and imports will depend on the ability of importers to supply barley at reasonable prices compared to other feed alternatives such as forage and feed concentrates. In past years, the government barley import subsidy program has made this grain the most price competitive feed alternative. It resulted in a drastic reduction in the demand for locally grown alfalfa, which in turn made forage production an unprofitable venture. Currently, most alfalfa is grown and used by dairy farmers. But this situation is expected to change if the retail price for 50 kg of barley equals or exceeds the price of a comparable bale of alfalfa or feed concentrates.

4. Trade Matrix

Calendar Year 2007 Saudi Arabian Barley Imports by Supplying Countries											
Qty---000 metric tons---											
Month	Ukraine	Germany	Australia	Canada	Russia	Spain	France	Baltic	Turkey	Other	Total
January	89	97	0	0	0	0	0	115	58	49	408
February	89	302	0	0	112	0	113	75	79	61	831
March	546	38	118	0	108	0	81	0	32	84	1,007
April	667	0	111	0	144	0	0	0	0	0	922
May	339	0	97	0	0	0	0	0	0	0	436
June	205	0	116	0	0	0	0	53	0	0	374
July	146	0	0	0	0	0	0	0	0	79	225
August	54	130	62	0	35	0	60	0	0	97	438
September	0	133	81	0	23	0	0	0	0		237
October	0	104	33	61	70	64	61	83	0	248	724
November	25	115	0	415	112	102	0	105	0	138	1,012
December	168	81	50	166	0	164	17	16	0	19	681
Total	2,328	1,000	668	642	604	330	332	447	169	775	7,295
Market share	32%	14%	9%	9%	8%	5%	5%	6%	2%	11%	100%

Source: Trade Contacts

Calendar Year 2006 Saudi Arabian Barley Imports								
Qty---000 metric tons---								
Month	Ukraine	Australia	Canada	Germany	Russia	Turkey	Other	Total
January	121	465	60	0	61	0	60	767
February	176	253	65	0	0	0	50	544
March	298	515	181	121	75	50	51	1,291
April	204	340	54	0	0	53	0	651
May	249	149	59	0	0	0	0	457
June	207	75	0	0	0	0	0	282
July	95	160	0	58	36	0	0	349
August	379	19	0	59	41	30	163	691
September	689	90	0	0	0	0	0	779
October	506	0	0	0	97	0	0	603
November	37	0	0	0	0	0	0	37
December	192	0	0	174	82	61	0	509
Total	3,153	2,066	419	412	392	194	324	6,960
Market share	45%	30%	6%	6%	6%	3%	5%	100%

Source: Trade Contacts

Month	MY 2006 (July 2006-June 2007)	MY 2005 (July 2005-June 2006)
	Qty---000 metric tons---	Qty ---000 metric tons---
July	349	535
August	691	423
September	779	626
October	603	676
November	37	472
December	509	446
January	408	858
February	831	543
March	1,007	1,290
April	922	651
May	436	456
June	374	283
Total	6,946	7,259

Source: Trade Contacts

II. Overview of Saudi Arabia's Wheat Production

PSD Table									
Country	Saudi Arabia								
Commodity	Wheat (Area---000 hectares---)(Qty---000 metric tons---)								
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	508	508	508	525	525	490	0	0	455
Beginning Stocks	1752	1642	1752	2007	1908	2007	2177	2081	1987
Production	2670	2670	2670	2670	2670	2500	0	0	2300
MY Imports	85	3	85	50	3	50	0	0	325
TY Imports	85	3	85	50	3	50	0	0	325
TY Imp. from U.S.	0	1	0	0	1	0	0	0	0
Total Supply	4507	4315	4507	4727	4581	4557	2177	2081	4612
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed Consumption	50	50	50	50	50	20	0	0	20
FSI Consumption	2450	2357	2450	2500	2450	2550	0	0	2652
Total Consumption	2500	2407	2500	2550	2500	2570	0	0	2672
Ending Stocks	2007	1908	2007	2177	2081	1987	0	0	1940
Total Distribution	4507	4315	4507	4727	4581	4557	0	0	4612
Yield	5.256	5.25591	5.2559	5.0857	5.08571	5.102	0	0	5.0549

1. Reduction in Wheat Production

The Saudi Arabian Ministry of Agriculture (MOA) has recently decided to reduce wheat production by 12.5 percent annually beginning with the 2009 crop that will be harvested in the spring of 2009. The MOA goal is to discontinue local wheat production by the spring of 2016. Until then, Saudi Arabia will augment the percentage reduction in local wheat production by importing a similar percentage from the international wheat market.

The recent decision is a drastic change in the country's longstanding policy of self-sufficiency in wheat production, which Saudi Arabia has pursued since the early 1980s. The country banned imports of bulk wheat and flour (with the exception of small retail packs of flour and some specialized flour for baking) when it achieved self-sufficiency in 1985. According to MOA officials the main reason for change in the local wheat production policy was concerns over the depletion of fossil water since the crop is grown on 100 percent central pivot irrigation. Wheat production places large demands on underground non-renewable aquifer water, resulting in an imbalance between water recharge and water discharge. As a result, the water level in the aquifer has fallen in grain-and forage-producing regions.

2. Wheat Imports

Beginning in the spring of 2009, Saudi Arabia will import wheat for the first time since the 1980s. MOA officials do not rule out the possibility of importing wheat sometime this year if the local wheat harvest does not yield the targeted production level of 2.5 million metric tons. Wheat is planted from mid-November to early January and harvested from the end of April through June.

The following table reflects Saudi Arabia's projected wheat import schedule:

Year	Estimated Dom Wheat Cons (MT)	Estimated Wheat Prod (MT)	Estimated Qty of Wheat Imports (MT)
2009	2,600,000	2,275,000	325,000
2010	2,704,000	2,028,000	676,000
2011	2,812,160	1,757,600	1,054,560
2012	2,924,646	1,462,323	1,462,323
2013	3,041,632	1,140,612	1,901,020
2014	3,163,298	790,824	2,372,473
2015	3,289,829	411,229	2,878,601
2016	3,421,423	0	3,421,423

The government will maintain the guaranteed purchase price for locally grown wheat at \$266.67 per metric ton until 2015.

3. The Grain Silos and Flour Mills Organization

The Grain Silos and Flour Mills Organization (GSFMO), a Saudi government agency, was established in 1981 for the purpose of building and operating grain silos and flourmills as well as animal feed processing plants. The organization was also assigned the responsibility of allocating grain production quotas to farmers, purchasing locally grown wheat at the government set purchase price, and milling and marketing wheat flour varieties. It also imported grains such as barely. Currently, the GSFMO has seven flourmills with a combined daily milling capacity of more than 70,000 metric tons of wheat. The agency's five feed factories manufacture more than 2,100 metric tons of animal feeds daily.

Starting in 2009, the organization will be responsible for importing wheat through tenders issued to local grain importers. Currently, the GSFMO purchases locally produced wheat for \$267 per metric ton and markets locally produced wheat flour through its ten distribution branches in major cities throughout the country.

Listed below are the current wholesale prices of flour and semolina as fixed by the GSFMO.

Product	Price (USD/MT)
White flour	\$130.00
Hi-extraction flour	\$118.30
Whole Wheat Flour	\$177.80
Semolina	\$414.70
Wheat Bran	\$ 40.00

4. Wheat Imports

The Saudi government has held several discussions with World Bank officials in the past few years concerning privatization of the country's flour mills. When the mills are privatized, traders will be allowed to buy wheat on the world market and mill locally. According to some reports, the government will continue the current wheat subsidy policy even if it goes out of the flour milling business. If the mills are privatized, the responsibilities of purchasing and selling locally produced wheat are expected to pass from the GSFMO to the Ministry of Finance (MOF). The Ministry will be responsible for purchasing locally produced wheat at the government purchase price until 2015 and selling it to local millers at subsidized rates. The MOF will also manage imported wheat and wheat flour by paying rebates to importers for the difference between the government's established wheat/wheat flour wholesale price and the C&F price for imported wheat/wheat flour.

III. Overview of Saudi Arabia Rice Market

PSD Table									
Country	Saudi Arabia								
Commodity	Rice, Milled		Qty---000 metric tons---						
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Area Harvested	0	0	0	0	0	0	0	0	0
Beginning Stocks	662	500	662	860	367	562	770	277	458
Milled Production	0	0	0	0	0	0	0	0	0
Rough Production	0	0	0	0	0	0	0	0	0
Milling Rate (.9999)	0	0	0	0	0	0	0	0	0
MY Imports	1448	917	958	960	960	916	0	0	962
TY Imports	960	917	958	1015	1015	916	0	0	962
TY Imp. from U.S.	81	90	81	128	100	128	0	0	140
Total Supply	2110	1417	1620	1820	1327	1478	770	277	1420
MY Exports	50	50	50	20	20	20	0	0	20
TY Exports	50	50	50	20	20	20	0	0	20
Total Consumption	1200	1000	1008	1030	1030	1000	0	0	1052
Ending Stocks	860	367	562	770	277	458	0	0	348
Total Distribution	2110	1417	1620	1820	1327	1478	0	0	1420
Yield (Rough)	0	0	0	0	0	0	0	0	0

No rice is produced in the Kingdom. In calendar year (CY) 2007, Saudi rice imports are estimated at 914,000 metric tons, a decrease of 5 percent from 2006. Imports in CY 2008 are forecast to increase 5 percent. Rice and bread are basic staple foods in Saudi Arabia and consumption of both is expected to grow significantly in the next few years due to an annual

population growth rate of 3 percent and the increased number of pilgrims coming to Mecca. More than five million pilgrims come to Mecca each year to perform Ummra and Hajj rituals. Also, the Saudi government procures rice locally for food donations to nearby countries affected by natural disasters.

1. Saudi Rice Imports

On December 8, 2007, the Saudi Arabian government issued a decree to subsidize rice imports at the rate of \$266.67 per metric ton. The government indicated it decided to introduce the new subsidy scheme to alleviate the financial burden on consumers caused by sharply increased import prices. The introduction of the rice subsidy program marks the first time in 26 years that Saudi Arabia has supported this commodity. In 1973, Saudi Arabia issued a decree to subsidize staple grains such as wheat flour, rice, and sugar. The subsidy on rice and sugar was lifted in the early 1980s. The subsidy on wheat flour continues. In the past when the government has issued a grain subsidy, it also established a retail price for that commodity. No prices have been announced for this particular subsidy. Local importers expect that the subsidy could decrease retail prices of high quality rice by up to 20 percent.

The government announced that it would implement the new rice subsidy program on rice imported from January 5, 2008. Importers have to submit the following documents to the Ministry of Finance to receive payments:

1. Letter of Credit (LC)
2. Original Invoice, original Bill of Lading and original Certificate of Origin. The documents must be certified by chamber of Commerce at the country of origin, LC opening bank and Saudi Customs at the seaport of arrival.
3. The original phytosanitary certificate-certified by the authorized exporting country authority attested by Customs at destination seaport.
4. Certificate from Saudi Ministry of Commerce and Industry laboratory indicating the rice grade, the broken percentage and confirmation that it's fit for human consumption.
5. Original statement of imported quantity attested by the Customs at destination seaport.

The subsidy program has the potential to significantly increase imports of rice to Saudi Arabia in calendar year 2008 compared to 2007.

Indian rice exports to Saudi Arabia for the first nine months of 2007 decreased 11 percent to 450,479 metric tons compared to the same period last year. According to major rice importers, India reportedly could not meet Saudi Arabia's rice import demand in 2007 due to its increased exports to Iran. The United States and Thailand benefited from the decline in Indian rice exports to Saudi Arabia in 2007.

U.S. rice exports increased by 58 percent to 128,000 metric tons last year compared to 2006, while Thailand's exports increased by 50 percent to 78,000 metric tons in the same period. Local buyers anticipate that their purchases of U.S. rice will increase significantly in 2008 due to a continued shortage of exportable high quality India rice to Saudi Arabia thus far this year. According to local importers the main reason for the decline in Indian rice exports to Saudi Arabia is the continued large import demand by Iran for high quality basmati rice.

2. Demand for Indian Rice

A significant percentage of Saudis and low-income expatriates have shifted from U.S. rice to Indian Parimal rice (PR 106). Indian Parimal parboiled rice was introduced in the Kingdom 14 years ago and has rapidly gained in popularity. Parimal rice is by far the least expensive parboiled rice available in the Kingdom. C&F price data for some varieties of rice are shown below:

Type of Rice	C&F Price per MT As of Early February 2008
White Indian Basmati	\$1,600
Indian Sella Basmati	\$1,500
Indian Parimal Parboiled rice	\$500
U.S. Long Grain Parboiled rice	\$644-\$756

The Saudi rice trade recognizes the superior quality of U.S. rice compared to Parimal but realizes that a significant number of local consumers are unable to ascertain the difference between the two varieties. Sources allege that illicit traders often pass off Indian rice as American rice by bagging Indian Parimal rice in bags associated with U.S.- origin product. This practice has been going on for several years and has proven difficult to stop.

The local availability of dozens of brands of Basmati and non-Basmati rice mainly from India has greatly increased competition for U.S. branded rice products. At present, there are less than five U.S. brands on the Saudi market.

3. Trade Matrix

Country	CY 2007	CY 2006	CY 2005	CY 2004	CY 2003	CY 2002
Qty---000 metric tons---						
India	584	687	715	754	820	600
US	128	81	98	94	102	92
Pakistan	84	88	95	86	81	70
Thailand	78	52	53	71	45	58
Other	40	50	50	40	30	30
Total	914	958	1,011	1,045	1,078	850

Source: Official supplying countries data and ATO estimates.